



SCRUTINY COMMISSION – 11TH MARCH 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

2019/20 MEDIUM TERM FINANCIAL STRATEGY MONITORING (PERIOD 10)

Purpose

1. To provide members with an update on the 2019/20 revenue budget and capital programme monitoring position as at period 10.

Policy Framework and Previous Decisions

2. The 2019/20 revenue budget and the 2019/20 to 2022/23 capital programme were approved by the County Council at its budget meeting on 20th February 2019 as part of the Medium Term Financial Strategy.

Background

3. The latest revenue budget monitoring exercise shows a net projected overspend of £4.3m.
4. The latest capital programme monitoring exercise shows a net projected variation of £49m compared with the 2019/20 budget, mainly due to slippage on the planned completion of schemes.
5. The monitoring information contained within this report is based on the pattern of revenue and capital expenditure to the end of January 2020.

REVENUE BUDGET

6. Overall a net overspend of £4.3m is forecast. The results of the latest exercise are summarised below and set out in more detail in Appendix 1.

	Updated Budget	Projected Outturn	Difference from Updated Budget	
	£000	£000	£000	%
Schools Budget – Schools and Early Years	0	-1,770	-1,770	
Schools Budget – High Needs	0	8,200	8,200	
Net Total	0	6,430	6,430	
Children & Family Services (Other)	75,125	78,795	3,670	4.9
Adults & Communities	148,209	145,409	-2,800	-1.9
Public Health	220	50	-170	n/a
Environment & Transport	69,653	71,733	2,080	3.0
Chief Executives	10,973	10,113	-860	-7.8
Corporate Resources	34,097	34,097	0	0.0
Capital Financing	60,560	60,560	0	0.0
Other Areas (Inflation and General Fund)	4,467	10,127	5,660	126.7
Central grants/other income	-25,894	-28,664	-2,770	10.7
Total	377,410	382,220	4,810	1.3
Funding	-377,410	-377,890	-480	0.1
Net Total	0	4,330	4,330	

7. The key projected variances that have been identified are set out below. Further details of major variances are provided in Appendix 2.

Children and Families – Schools Budget

8. The overall school budget is forecast to be £6.4m overspent to the budget (Dedicated Schools Grant) at the end of 2019/20. This comprises an overspend of £8.2m on the High Needs block and an underspend of £1.8m on the Schools and Early Years blocks.
9. Nationally concern over the impact of SEND reform on High Needs expenditure and the financial difficulties this places on local authorities is growing. The position in Leicestershire reflects the national picture. Following confirmation of pupil destinations for the 2019/20 academic year and a review of the pupil tracking information, demand for packages to support pupils with Education, Health and Care Plans (EHCPs) was found to have exceeded that assumed within the High Needs Development Plan by 151 pupils, an increase of 4%; and additional unit costs at special schools by 5% and mainstream schools by 17%. A deficit of £8.2m is forecast for 2019/20, an increase of £2m on the original budget plans.
10. The sufficiency workstream of the High Needs Development Plan has delivered an additional 90 places in the financial year. However, this additional capacity has not met the increase in overall demand and is the significant factor in the change of

position. The full year cost saving of this new provision is £2.2m. Without this new capacity pupils would have required independent special school placements.

11. When added to the High Needs deficit within the DSG earmarked fund the cumulative High Needs deficit at the end of 2019/20 is forecast to be £8.3m.
12. For 2020/21 it is estimated that the expenditure in excess of the grant will be £11m assuming that current demand trends continue. By the end of 2020/21 the estimated accumulated high needs deficit is forecast to be £19m. The Department is investigating a number of actions that could over the course of the MTFs reduce demand and therefore the overall deficit.
13. The Schools and Early Years blocks are forecast to underspend by £1.8m. The main variation is a £2m underspend on funding budgeted for schools growth, to meet the revenue cost of commissioning new schools, not being required in 2019/20. The underspend will be held in the DSG earmarked fund to meet future costs, for the expected growth in pupil numbers, which the in-year grant will not cover.

Children and Families – Local Authority Budget (Other)

14. The budget is forecast to be £3.7m overspent for the financial year.
15. Children's Social Care workforce - £2.7m overspend. The recruitment of social workers is a concern nationally and that position is reflected in Leicestershire resulting in a continued need to use agency workers to fill vacancies. The department's recruitment and retention strategy is embedded, the use of agency staff is decreasing as additional permanent staff are being appointed. It is anticipated that this position will continue resulting in less reliance on agency staff. A number of newly qualified social workers have been recruited over the last 12 months, who in the short term need to be supported by experienced workers. Maintaining caseloads at a reasonable level is also an increasing pressure across many social care services.
16. Operational Placements - £1.8m overspend. Overall the numbers of looked after children are in line with the budget. However, some new placements have entered the system with very high and complicated needs which have resulted in costs of up to £7,500 plus per week, 100% higher than the total average cost of that placement type. It is projected that the average weekly cost to social care of external residential placements will rise from £3,300 per week at the start of the financial year to £3,800 per week (15% increase) by the end of the financial year.
17. Likewise, a similar trend can be seen in the 16 plus provision type, with the average weekly cost to social care of £950 per week at the start of the financial year rising to £1,330 per week currently (40% increase). Again a similar trend is being seen where new activity coming in to the system is managing need of a higher, more complex type than activity exiting the system. For example, current projections include a number of children costing £3,000 per week (200% higher than average cost for this provision type), but potentially could have been costing the Council significantly more

had these placements not been stepped down from an external residential placement.

18. The increase in social care staffing and placement costs has been included as growth within the new MTFS.
19. Asylum Seekers - £0.5m overspend. Demand on this budget continues to rise, leading to the need for additional staffing. Although the Home Office has increased funding rates this is not sufficient to offset the overall pressure on this budget. The problem continues to grow from 2018/19 where an overspend of £0.4m was incurred.
20. The Children and Families Wellbeing Service is forecast to underspend by £0.9m, largely due to staff turnover and vacancies.

Adults and Communities

21. The budget is forecast to be £2.8m underspent by year end.
22. Staffing, overhead and other budgets are forecasting a net underspend of £2.6m. There is a high level of staffing vacancies across the department. Some of these will be filled temporarily by the use of agency staff or are held in advance of savings.
23. Direct Payments / Home Care – net underspend of £0.2m. Increased service users receiving a Help to Live at Home (HTLAH) service (£1.4m) offset by a reduction in the number of service users receiving a Direct Payment (£1.6m).
24. Residential Care / Supported Living – net underspend of £0.4m arising from a reduction in the overall number of service users. A £1.3m increase in costs on supported living is offset by a £1.7m reduction in residential care costs, due to the departmental Target Operating Model (TOM) programme of moving service users from residential care to supported living and changes to the Learning Disabilities pooled budget with Health.

Environment and Transport

25. An overall overspend of £2.1m is forecast. Special Educational Needs (SEN) transport is the main area, reporting a £2.1m overspend for the year. There are increasing numbers of pupils requiring transport provision and in some cases risk assessments and case conferences have highlighted that children require a higher level of transport provision (such as solo travel). Delays in implementing savings are also a factor in the forecast overspend (£0.6m of the overspend), including those relating to the impact of the judicial review. Further work to reassess the overspend will be required once the new academic year transport patterns are known.

Chief Executive's

26. An underspend of £0.9m is reported for the financial year. The main reasons are due to additional planning fee income and staff vacancies.

Corporate Resources

27. Overall the department is forecasting to be on budget. However, there are pressures in Commercial Services; £1.4m forecast overspend due to growth in profit (£0.5m) not being achieved, pressures from an overspend in 2018/19 and additional costs arising from the 2019 pay award that cannot be fully recovered through increased income levels in the short term. The budgeted net contribution was £1.8m of which £0.4m has been achieved.
28. The position is offset by savings elsewhere within the department through managing vacancies in ICT staffing in advance of savings and low levels of insurance claims. The department is reviewing the approach to Commercial Services to address the current pressures.

Central

29. The inflation contingency of £13.9m is projected to be overspent by around £3.2m. The overspend is mainly due to inflation pressures of £9.2m on the Adults and Communities budget, mostly relating to the fee review including implementing new bands and the 2019/20 inflationary uplift, as detailed in a report to the Cabinet on 25 June 2019. This is exceptional compared with previous years (averaging around £4m - £5m). Other pressures include the 2019/20 pay award and an increase to the employer pension contribution rate amounting to £5.3m, and inflation pressures of around £2.6m on highways, transport, waste, energy and other budgets.
30. Central Grants and Other Income is forecast to underspend by £2.8m due mainly to an increase in bank interest from higher balances (£0.6m) and a review of prior year open purchase orders and other liabilities that are no longer required (£2.4m).
31. The budget assumed a requirement to increase the General Fund by £6m to cover the forecast deficit in High Needs funding. The worsened position, as set out above, will require an additional £2.5m to be contributed to the General Fund in 2019/20 to mitigate the risk that this expenditure cannot be recovered.
32. Additional Business Rates income of £0.5m is forecast from an increase in section 31 grants to compensate for discounts awarded nationally by Government, and additional funding from the national levy account.

Business Rates

33. The latest forecasts for the 2019/20 Leicester and Leicestershire Business Rates Pool and 75% Business Rates Pilot show:
 - Business Rates Pool - surplus of £8.2m in 2019/20 compared with an original forecast of £8m in January 2019. The surplus is transferred to the Leicester and Leicestershire Enterprise Partnership (LLEP).

- Business Rates Pilot - surplus of £14m, to be distributed to the pooling partners. The County Council's share of c.£7m is included in the 2019/20 MTFS as part of the Future Developments Fund. The pilot is for 2019/20 only.

34. Due to the success of the Business Rates Pool a total of £32m will have been retained in Leicestershire, since the first year of operation in 2013/14. The funding, provided to the LLEP, is being used to support a range of infrastructure projects around the County and City. Part of this funding will be received by the County Council to help offset the costs of specific projects which would otherwise need to be funded from the Council's own funding sources. Due to the strong position in 2019/20 the Pool will continue in 2020/21 and is forecast to generate a further £11m.

Overall Revenue Summary

35. Overall, there is a forecast net overspend of £4.3m.
36. In order to balance the 2019/20 outturn position the Revenue Funding of Capital budget will be reduced. This is possible given the level of slippage on the capital programme as set out below. However, the funding will need to be replaced in 2020/21 which will result in a reduction to the funding of the 2020-24 capital programme, adding to the shortfall of funding for the new programme. This will create an additional demand on the County Council's cash resources that will need to be repaid. The MTFS 2020-24 included provision for a £4m forecast overspend in 2019/20.
37. For 2020/21, the significant budget pressures reported during 2019/20 were identified early in the financial year and have been reflected in the new MTFS.

CAPITAL PROGRAMME

38. The capital programme for 2019/20 totals £170m, including slippage of £19m from the 2018/19 outturn position. The latest position for 2019/20 shows an overall forecast variance of £49.4m. A summary is shown in Appendix 3 with details of the major variances provided in Appendix 4. The main variances are reported below:
39. Children and Family Services – overall slippage of £1.8m. The main areas include;
- Provision of Additional Primary Places programme – slippage of £2.8m.
 - Blaby Thistly Meadow, slippage £1.4m due to planning issues as the site is on a flood plain, the structure will be raised to overcome the problem.
 - Thurnby Fernvale, slippage £1m due to issues with ownership of the brook which runs along the site and an easement to Severn Trent which required a full re-design of the scheme which delayed the programme; the project is now expected to complete during the Summer break in time for the new academic year.

- SEND Programme – acceleration forecast of £1.3m. The programme is being accelerated as the delivery of additional SEN places is crucial for the delivery of revenue savings which are integral to the High Needs Development Plan.

40. Adults and Communities - overall net slippage of £5.4m:

- Records Office Relocation – slippage of £2.9m. The business case has required a major re-write due to the number of significant changes to the design. Revised proposals are now being considered. Overall it is still expected that the scheme can be delivered within the original budget. However, as a result of the issues encountered the estimated completion date is now expected to be late 2022/23.
- Hamilton Court / Smith Crescent NWL Development - £2.1m slippage due to the programme of work required significantly changing since the capital funding was requested. A detailed feasibility report has been completed and pre-construction works started in January 2020 with the actual works expected to commence in March 2020. The scheme is still forecast to be delivered to the original budget.

41. Environment and Transport - overall net slippage of £30.8m:

- M1 Junction 23 and A512 - £9.6m slippage due to delays in completing the legal agreement with the developers. There has also been a delay due to issues with access to the site. The agreement has now been signed and construction works have started.
- National Productivity Investment Fund (NPIF) Hinckley Hub - £4.9m slippage due to delays in negotiations with the land owners. Work is now expected to start in March 2020.
- Waste Transfer Station - £4.5m slippage – due to delays in identifying a suitable site which has now been agreed at Bardon. Work will now mainly take place in 2020/21.
- Melton Depot Replacement - £3.8m slippage as the winter 2019/20 service is to be provided out of the existing depot following a one-year extension of lease being granted. For winter 2020/21 onwards, there is currently no prospect of moving to the new depot site until the Melton Distributor Road is completed. Short term options are being investigated.
- County Council Vehicle Programme - £1.9m slippage due to a fleet management review which is now complete with actions and outcomes being considered.
- Lutterworth East Road - £1.8m slippage due to some of the pre-construction works will not be completed until Spring 2020.
- Zouch Bridge - £1.6m slippage following a review of the scheme. Cabinet received a report on 24 May 2019 which reported a shortfall in funding for the replacement of Zouch Bridge. Following a review of the scheme, additional funding has been included within the new MTFs 2020-24 to ensure completion of the project. The planned scheme start date is now Summer 2020.

42. Corporate Resources Programme, overall net slippage of £5.5m.

- Watermead Park Footbridge and Cycleway, slippage of £2m. The scheme is now on hold as one of the landowners on which the bridge will be located is reconsidering their involvement in the project. Conversations are continuing between County Council, Leicester City Council and the land owners on the potential viability of this scheme.
- Snibston and Country Park Future Strategy – Land Remediation works, slippage of £1.8m. Works to remediate the land have been put on hold, while the site is investigated for potential use by the Social Care Investment Plan.
- Snibston and Country Park Future Strategy – Masterplan, slippage of £1.1m, arising from clarifications with the District Council.

43. Corporate Programme, overall net slippage of £5.3m.

- Corporate Asset Investment Strategy (CAIF) – Loughborough University Science and Enterprise Park, development of an office block plus car parking spaces, accelerated timescale, £6.8m.
- CAIF – East of Lutterworth SDA, land purchase, slippage of £9.1m. The completion of the purchase of the final two parcels of land associated with this scheme will now complete on 3rd April 2020.
- CAIF – Airfield Business Park, development of industrial units on part of the site, underspend £1.5m. Reduction in funding required based on the agreed fixed price contract, partly due to procuring a cheaper construction package through the OJEU process alongside some changes to the scheme.
- Energy Strategy, slippage of £1.8m. Schemes progressing but can take significant time for schemes to be approved and progressed to operational stage. Funding should still be required as a number of schools are in conversation with the Energy team to progress.

Capital Receipts

44. The requirement for capital receipts for 2019/20 is £12m. The latest forecast of receipts is £3m, a shortfall of £9m. The shortfall is primarily due to delays with three large planned sales where planning permission is required. Of the shortfall, £3m is now expected to be received in 2020/21.

45. The remaining shortfall can be managed in 2019/20 due to the overall level of slippage on the capital programme. However, there is a risk that the difficulties will have an impact on the funding of the future capital programme. An adjustment for the shortfall and delay has been included within the new MTFS for 2020-24.

Corporate Asset Investment Fund

46. A summary of the CAIF position as at quarter 3 for 2019/20 is set out below:

Asset Class	Opening Capital Value	Capital Incurred 2019/20	Net Income YTD	Forecast Net Income FY	Forecast Net Inc. Return FY
	£000	£000	£000	£000	%
Office	27,657	95	1,450	1,688	6.1%
Industrial	12,479	3	527	887	7.1%
Distribution	456	1	13	36	7.9%
Development	35,120	31,776	44	19	0.0%
Rural	20,585	619	516	949	4.5%
Other	4,344	0	48	283	6.5%
Pooled Property	23,110	2,500	715	1,000	3.9%
Private Debt	20,890	0	750	1,045	5.0%
TOTAL	144,641	34,994	4,063	5,907	3.3%

47. Overall the fund is forecasting to achieve a 3.3% net income return for 2019/20. If the development classification was excluded, the return would increase to 5.2%. It should be noted that the above table excludes in year capital growth which is assessed annually as part of the asset revaluation exercise and reported in the annual CAIF performance report.
48. During June 2019, an additional £2.5m was invested in Pooled Property funds bringing the total held to £25m as originally planned, the opening value in the table above includes growth in the valuation of the fund.

Future Developments Fund

49. The balance on the future development fund is currently £17m. As part of updating the new MTFS this balance has been added to the new capital programme funding and this phase of the future developments fund will be closed. The new MTFS includes a provision of £60m over 4 years for (new) Future Developments schemes.
50. The Future Developments fund is held to contribute towards schemes that have been identified but are not sufficiently detailed for inclusion in the capital programme at this time. There is a long list of projects that may require funding over the next 4 years. These include investment in infrastructure for schools and roads arising from increases in population, investment in health and social care service user accommodation, highways match funding of capital bids, and investment in the efficiency and productivity programme. The list of future developments is continually refreshed. Bids from the Fund will be managed through prioritisation and where possible the identification of alternative funding sources.

Recommendation

51. The Scrutiny Commission is asked to note the contents of this report.

Background Papers

County Council, 20 February 2019 – Medium Term Financial Strategy 2019/20 to 2022/23.

<http://politics.leics.gov.uk/documents/s144416/Report%20of%20the%20Cabinet%20-%20MTFS.pdf>

<http://politics.leics.gov.uk/documents/s144417/MTFS%2019-23%20-%20Cab%208-2-19%20v4%20final.pdf>

Circulation under the Local Issues Alert Procedure

None.

Equality and Human Rights Implications

There are no direct implications arising from this report.

Appendices

Appendix 1 – Revenue Budget Monitoring Statement

Appendix 2 – Revenue Budget – Forecast Main Variances

Appendix 3 – Capital Programme Monitoring Statement

Appendix 4 – Capital Programme – Forecast Main Variances and Changes in Funding

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